In Nabisco takeover

Fund merger seen as likely

By Alan Krauss

WINSTON-SALEM, N.C. — R.J. Reynolds Industries Inc. is likely to absorb the $510 million Nabisco Brands Inc. pension fund into its own $1.7 billion fund when the merger of the two companies is completed, if past practice is any guide.

However, any action to merge the two funds is unlikely to take place for some time.

While Gene A. Hoots, the executive in charge of managing Reynolds' savings and pension assets, said it is too soon to tell whether the plans will be combined, Reynolds did merge its pension assets with those of two earlier acquisitions, Del Monte Corp. in 1979 and Heublein Inc. in 1982.

But, Mr. Hoots said, "we cannot in any way conclude that (the pension fund) combination will be handled in the same way. This is a whole new ball game."

The decision facing Reynolds executives, Mr. Hoots said, is whether the pension plans will be run separately or be combined.

"Those are the two alternatives, but it's a significant decision that will require a lot of study," he said.

Reynolds ran the Del Monte and Heublein pension assets independently from its own for about 18 months after each acquisition, Mr. Hoots said.

"At that time, in each case, we moved the assets from the master trustee where they resided to our master trustee, retaining all managers who were managing the money at each company," he said.

About a year after acquiring Heublein, Reynolds undertook an overall re-evaluation of all its managers, both inherited and those that had been managing Reynolds assets all along.

"We did terminate some managers at that point simply because we felt that we had too many outside money managers," Mr. Hoots said. "Those chosen were not terminated because of (unsatisfactory) performance but because of the small amount of our assets they had under management."

A spokesman said if the Reynolds-Nabisco merger goes according to schedule, it will be completed by August or September.

Another indication that Reynolds is likely to continue its active participation in pension asset management was the creation earlier this year of an in-house subsidiary RJR Investment Management Inc., of which Mr. Hoots is president.

Reynolds subsequently took in-house a $250 million dedicated bond portfolio that had been managed by Morgan Guaranty Trust Co., Mr. Hoots said. The portfolio remains passively managed.

While stressing RJR Investment Management is a pilot project with no current plans to increase its activities and no targeted asset amount, Mr. Hoots said the subsidiary is also managing a "small" equity portfolio. He declined to specify the portfolio's exact size or the style in which it is being run.

According to its 1983 annual report, the most recent one available, the Reynolds plans are overfunded by $265 million, with total accumulated plan benefits of $914 million and $1,179 million in net assets available for benefits.

But Mr. Hoots said that since

Continued on page 66

BankAmerica redesigns employee benefit plans

By Trudy Ring

SAN FRANCISCO — BankAmerica Corp. has amended its retirement plans in a manner that officials expect to improve employee satisfaction and allow the company to control future costs.

Using a formula developed with the consulting firm Kwasha Lipton of Fort Lee, N.J., BankAmerica redesigned its basic defined benefit plan and improved its 401(k) plan.

It reduces employees' accruals by funding pensions under the defined benefit plan on the basis of current pay rather than final-average pay, but makes the 401(k) plan more attractive and open to more employees.

BankAmerica was the first firm to adopt Kwasha Lipton's formula, but others have followed. Keuffel & Esser, Parsippany, N.J., and Consolidated Laundries Inc., Secaucus, N.J., have put the strategy into effect, and another company is about to do so, Kwasha Lipton officials said.

Kwasha Lipton is talking with other employers "literally all the time," officials said.

One thing that spurred the changes at BankAmerica was a survey that indicated only about 30% of the employees were satisfied with the pension plan. Some said they couldn't understand the plan well enough to rate it, said Dan Rowland, vice president and director-U.S. compensation and benefits.

From the employer's point of view, it was difficult to project liabilities under the traditional defined benefit plan with benefits based on a final-average-pay formula. "It's a best guess," Mr. Rowland said.

With Kwasha Lipton, BankAmerica came up with a formula that pension officials found attractive. The amendments to the defined benefit plan will go into effect July 1, while the changes in the savings plan will be effective Oct. 1.

Under the old defined benefit plan, the benefit formula has been final-five-year average pay times 2% for the first 25 years of service, then times ½% for additional years.

However, this design had become increasingly burdensome, BankAmerica officials said. Because of

Continued on page 64

D.C. hires 4 in restructuring

By Marci Baker

WASHINGTON — The District of Columbia Retirement Board has hired four managers as part of its restructuring of the $625 million in pension assets it oversees.

Loomis, Sayles & Co., in Washington, Lazard Freres Asset Management, New York, and Trinity Investment Management Corp., Boston, have been selected as equity managers and will run $20 million apiece, said Earl Johnson, executive director. Their accounts will be funded from cash flow.

In addition, he said, the National Bank of Washington has been tapped to manage a short-term investment account. The D.C. fund, which includes retirement assets for judges, firefighters and police officers, is looking to allocate 10% of its assets to short-term instruments.

The three active stock managers were hired to fill what Mr. Johnson termed "defensive" equity assignments.

According to *Pensions & Investment Age*'s annual investment adviser profiles (*P&I Age*, May 6), Loomis offers a sector rotational approach to equity investing and looks for exceptional, unexpected surges in earnings. Lazard, through proprietary research, looks to identify and validate stocks with high returns on equity and assets and lower price/book value. Trinity invests in stocks based on low price/earnings ratios, sector rotation and Graham & Dodd.

The new managers' styles are expected to complement those existing managers running aggressive equity accounts. They are Loomis, Sayles, Boston; Alliance Capital Management, New York; and Potomac Asset Management, Washington.

Although the newly selected equity managers, like the system's other active managers, will run their accounts according to their regular investment styles, one caveat is they cannot include in their portfolios companies that do business with South Africa.

Mayor Marion Barry prohibited investment in such companies a year ago after a protracted debate on the legality of a similar measure passed in 1983 by the D.C. City Council.

Mr. Johnson does not anticipate the ban will weigh heavily on the investment processes of the fund's defensive managers.

"Our investment consultant, Callan Associates, reported to the board that the managers do not expect to encounter any major problems with (the South Africa rule)," he said.

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Late news

Continued from page 1

have been in effect, and for the employees, to 7.4% from 8%.

Hansen independent

CHICAGO — A.S. Hansen Inc., the actuarial and employee benefits consulting firm, has decided to remain independent after talking with 16 of its competitors about various merger possibilities.

One of the competitors approached was Hay, Huggins, a Philadelphia-based actuarial firm owned by the British advertising firm, Saatchi & Saatchi Co. PLC.

A Hansen spokesman confirmed an inquiry came up about two weeks ago, but was rejected by the board.

N. Ireland resolution

NEW YORK — The $8.5 billion New York City Teachers Retirement System has passed a resolution that instructs companies with operations in Northern Ireland whose stocks it holds to sign the MacBride Principles for fair employment practices, according to Wallace Sullivan, executive director.

Last month, the fund implemented a resolution aimed at fighting apartheid in South Africa (*Pensions & Investment Age*, May 13). However, the Northern Ireland resolution does not carry any divestment threat. Instead, it calls for initiating and supporting appropriate shareholder resolutions.

Divestment rejected

FAIRFAX, Va. — The Fairfax County Board of Supervisors has voted down a proposal to withdraw pension fund investments in companies doing business in South Africa. Board members approved an alternative resolution asserting their opposition to apartheid but leaving investments in place.

Securities issues up

NEW YORK — Corporations issued $11.4 billion in new securities in May, up 2.5% from the $11.1 billion reported in April. That volume, however, represented a 152% jump from the $4.4 billion in public offerings reported in May 1984, according IDD Information Services.

Straight debt and convertible preferred offerings accounted for the modest rise from April. All other securities categories saw declines.

Late money movers

• CARSON CITY, Nev. — The Nevada Public Employees Retirement System has allocated $28 million to three commingled real estate funds in the first stage of an expected $140 million move into equity real estate, said Laura Wallace, the $1.4 billion fund's real estate investment analyst.

The Nevada fund allocated $10 million to Prudential Asset Management Co.'s open-end PRISA fund, $9 million to Heitman Advisory Corp.'s closed-end Real Estate Fund II and $9 million to TCW Realty Advisors' Real Estate Fund III, Ms. Wallace said.

• PHOENIX — The $3 billion Arizona State Retirement System chose Duff & Phelps Investment Management Co., Chicago, to manage a $378 million portfolio of zero-coupon bonds, previously run in-house, said Max Sullivan, fund director. Contract terms have not yet been completed.

• DALLAS — National Gypsum Corp. has hired RepublicBank Dallas as trustee and record-keeper for its recently established 401(k) salary reduction plan.

• NEW YORK — The $2.3 million Federation of Protestant Welfare Agencies pension fund hired Carret & Co. to invest all of its pension assets in a balanced account with a strong leaning toward equities, said Dennis Castro, assistant vice president. Carret replaces J.P Morgan Investment Management Inc.

• PENNSAUKEN, Pa. — Hordis Brothers Inc., a privately held processor of flat glass products, has hired Connecticut General Life Insurance Co., Hartford, Conn., to manage a 401(k) plan for salaried employees, implemented earlier this year, according to William Southwick, Hordis vice president for administration.

• SEATTLE — The $280 million Seattle City Employees Retirement System selected Duff & Phelps Investment Management Co., Chicago, to run a $100 million corporate bond portfolio, previously run in-house, said Roger A. Howeiler, the fund's executive director. Contract terms are incomplete.

Crum & Forster to terminate plan

MORRISTOWN, N.J. — Crum & Forster Inc. has filed a notice with the Pension Benefit Guaranty Corp. it intends to terminate its $181.8 million defined benefit plan, replacing it with a new defined benefit plan, and hopes to recapture more than $50 million in surplus assets, according to company officials.

Its action is a continuation of a trend among large property and casualty insurance companies terminating their pension plans in hopes of gaining access to capital needed to continue writing policies.

The company, a wholly owned subsidiary of Xerox Corp., is a major property and casualty underwriter with assets of more than $6 billion.

The property and casualty insurance industry has been hit hard during the past two years by increasing underwriting losses and declining revenue.

Frank Caraicato, vice president of administrative planning, said the termination is part of a comprehensive revamping of the company's employee benefits package, including the addition of a flexible credit account and a 401(k) feature to the company's thrift plan, multiple choices on its medical plan as well as the establishment of a new defined benefit plan for active employees.

"We are revising our retirement and benefits program to give employees a greater degree of choices," Mr. Caraicato said. "The changes could have been made by amending the terms and conditions of the old plan. We didn't have to terminate the plan, but we decided to do it by termination because there were excess assets in the plan and termination was necessary in order to obtain those excess assets."

"We are looking to recover in excess of $50 million and our thinking is that it will be added to statutory surplus ... the insurance company version of equity," said George Rachmiel, senior vice president and treasurer.

The addition of the surplus assets to statutory surplus, or policyholder surplus, has been the standard practice in most previous terminations by property and casualty insurers.

In recent months Wausau Insurance Co., Chubb Corp., The Home Insurance Co., Fireman's Fund Insurance Co., American Mutual Liability Insurance Co. and Commercial Union Insurance Co. all have filed termination notices with the PBGC.

Industry performance has suffered in the past several quarters because of company practices of charging lower rates at a time when claim costs have been increasing and investment income has not been sufficient to offset the lower rates.

Property and casualty companies have started increasing rates but many need to increase policyholder surplus in order to continue writing new business. Premium writings are limited by a multiple of the surplus on hand.

"Basically, the property casualty business has had some pressure on surplus in recent years," said Mr. Rachmiel. "By putting in (the reversion) into statutory surplus we are better able to take advantage of the higher prices in the market today."

In a prepared statement regarding the termination Crum & Forster officials said: "Having decided to implement the full new benefits package, Crum & Forster made a subsequent decision that it would do so by way of a termination of the old retirement plan to obtain the additional benefits of the recapture of excess assets."

Mr. Caraicato said the firm intends to solicit bids for annuities and is involved in discussions with potential bidders now.

The Crum & Forster plan has total assets of approximately $181.8 million, all of which is handled internally, and the company expects to recover $52.8 million in surplus assets, before expenses, said Mr. Rachmiel.

Mr. Cariacato said the company will receive more than $50 million after the legal and administrative expenses of the termination and purchasing of annuities.

The plan has approximately 9,100 total participants. The Bank of New York Trust Co. is the custodian.

Crum & Forster had net income of $10.1 million during the first quarter of 1985 compared with $24.7 million during the first quarter of 1984.

One insurance industry analyst said Crum & Forster is among those major property and casualty insurers in need of a major cash infusion.

"They certainly can make use of (the reversion) because it will allow them to continue to write new business," he said.

"They have had extremely bad underwriting results in 1984 and during the first quarter of 1985," he said, "But they are starting to recover now with rate increases of over 50% on their primary business lines." ■

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Corrections

• ***First Pennsylvania Bank*** *was ranked incorrectly in the table of leading U.S. master trust banks in the May 27 issue.*

Its total of master trust and master custodial assets should have read $18.5 billion, placing the bank in 12th place.

The correct totals and ranking appear below (all amounts are $ millions):

1. Chase Manhattan	$101,000
2. State Street Bank	71,065
3. Bankers Trust	68,400
4. Northern Trust	62,994
5. Citibank	45,330
6. Mellon	40,825
7. Irving Trust	35,000
8. Boston Safe	26,750
9. Bank of New York	24,300
10. Harris Trust	23,200
11. Mfrs. Hanover	19,700
12. First Pennsylvania	18,500
13. National of Detroit	17,690
14. RepublicBank Dallas	17,500
15. U.S. Trust	14,300
16. Wachovia Bank	13,527
17. Continental Illinois	13,200
18. Bank of America	12,100
19. Mfrs. National	11,300
20. Norwest Bank	8,400
21. Wilmington Trust	7,300
22. Mercantile Safe	6,900
23. AmeriTrust	4,580
24. Citizens & Southern	4,550
25. Texas Commerce	4,300
26. First Trust Co.	2,700
27. First Wisconsin	2,346
28. Marine Midland	2,105
29. M&I Bank	1,850
30. Centerre Trust	1,850
Total	**683,562**

• The profile of **Bank of New York** in the May 27 master trust directory incorrectly stated the amount of the bank's largest master trust client. The correct amount is $7 billion.

Contributory plans gain in popularity

WASHINGTON — Smaller employers increasingly are turning to defined contribution plans as their primary retirement vehicle.

The larger employer generally is sticking with the defined benefit plan, adding defined contribution plans as supplemental vehicles, said Dallas Salisbury, president of the Employee Benefit Research Institute, a non-profit research group on employee benefits.

But the smaller employer — with 25 to 300 employees — is likely looking at only one plan, and that plan is a defined contribution plan, he said. That trend is enhanced by highly popular 401(k) salary reduction plans, he noted.

Legislative action that would toughen standards for retirement plans simply will accelerate those trends, Mr. Salisbury added. Proposed changes in the minimum vesting, integration and portability rules are being considered by Congress.

According to statistics compiled by EBRI, the growth rate of defined contribution plans is outstripping that of defined benefit plans.

The number of defined contribution plans has more than doubled in the 10 years ended 1984, rising to 554,000 from 283,000, while the number of defined benefit plans grew by 87% in that period, totalling some 240,000 by the end of 1984.

During the 10-year period, defined contribution plans have grown at an average clip of 7.4% a year, compared with 6.5% for defined benefit plans, EBRI noted.

The average size of participants covered by new plans, however, varies enormously by the type of plan, according to EBRI tabulations of Internal Revenue Service data.

In the period 1976 through 1983, the average defined contribution plan covered 34 participants. However, under that general term, stock bonus plans had an average size of 1,201 participants; employee stock ownership plans, 2,085; profit-sharing plans, 23; and money purchase plans, 12.

Defined benefit plans had an average of 76 participants.

Examining the past two years alone, IRS determination letter data show the number of new defined contribution plans shrank by nearly 50%, declining to 28,279 plans formed in 1984 from 42,089 plans created in 1983.

However, the number of participants covered by 1984 plans grew 225% from 1983, with 4.35 million employees covered in plans formed last year, compared with 1.93 million the year before.

On the defined benefit side, only 12,807 plans covering 1.34 million employees were created last year, compared with 22,150 covering 1.95 million employees the year before.

In terms of assets, defined contribution plans are assuming far more dramatic importance.

According to an unpublished study by Richard Ippolito, director of the Department of Labor's office of policy and research in the pension program, assets held in defined contribution plans were only 11.6% of total pension assets. They rose to 23.4% by 1970 and 27.8% in 1980.

According to his projections, defined contribution plan assets will reach 34.9% of total pension assets by 2000.

In dollar terms, private-sector defined contribution plans are expected to have assets of $779 billion by 2000 (measured in 1984 dollars), compared with $221 billion in 1981.

In comparison, private defined benefit plan assets are expected to increase to $1,453 billion, up from $574 billion, Mr. Ippolito estimated. ■

Trends in net pension plan creation and growth, 1974 to 1984

	Total pension plans		Defined benefit plans			Defined contribution plans		
Year	Total number (thousands)	Growth rate (percent)	Total number (thousands)	Growth rate (percent)	As percent of total pension plans	Total number (thousands)	Growth rate (percent)	As percent of total pension plans
1974	400	*	128	*	32	272	*	68
1975	422	5.5	132	2.6	31	290	6.9	69
1976	432	2.4	130	−1.1	30	302	3.9	70
1977	451	4.5	132	1.2	29	320	6.0	71
1978	496	9.8	139	5.7	28	357	11.5	72
1979	539	8.7	158	13.1	29	381	6.9	71
1980	590	9.5	179	13.8	30	410	7.7	70
1981	658	11.5	199	10.7	30	459	11.9	70
1982	728	10.7	222	11.7	30	506	10.2	70
1983	774	6.3	237	6.7	31	537	6.1	69
1984	795	2.7	240	1.5	30	554	3.2	70

Source: U.S. Department of Labor, memo tabulating data from IRS 5500 and 5500c forms; U.S. Internal Revenue Service, news releases of determination letter statistics.

Note: "Total Number" of plans for 1977-80 are U.S. Department of Labor tabulations of data contained in IRS 5500 and 5500c forms. Since all plans must submit one of these forms annually, these numbers represent a count of all plans in existence. For 1974-76 and 1981-84, these data are not available. Numbers for those years were estimated by EBRI using IRS determination letter statistics. Details may not add to totals due to rounding.
*Data unavailable.

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Pensions & Investment Age

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Pension surplus key to United's financing

By Chuck Paustian

CHICAGO — The termination of United Air Lines Inc.'s pension plans was essential to finance the airline's aggressive corporate expansion, to help thwart a possible takeover and to boost its stock price, analysts and company spokesmen say.

United's financial executives figured recapturing an estimated $962 million in surplus pension assets through a spinoff/termination would have helped bolster the company's stock price had the recently settled pilots' strike dragged on and caused the stock to drop, said Timothy Pettee, senior analyst at L.F. Rothschild, Unterberg, Towbin, New York.

The United reversion is the largest in pension history.

In addition, analysts expect UAL Inc., its parent, to generate $1 billion to as much as $5 billion from its sale of some of its Westin Hotels properties. Mr. Pettee, who thinks the deal would generate closer to $1 billion, said the Westin sale was put together hurriedly as a secondary way to boost United's share price in case of a prolonged pilots' strike.

"In order of importance, I'd say the pension move is the move that deters a potential takeover the most," said Mr. Pettee.

Rob Doughty, United spokesman, said the termination was not related to the pilots' strike, adding the sole reason was to avoid any possible takeover attempts.

"This action was taken as opposed to the other option, started by UAL in 1984, which was to decrease the company contributions in order to, over the years, decrease the overfunded status of the plans," he said.

"However, takeover rumors have forced UAL to need to do this more quickly."

Besides being the largest such reversion, United's termination would force the company to make the biggest one-time purchase of insurance annuities, possibly $1.6 billion.

Because of the huge amount, industry officials believe few insurance companies would have the capacity to bid for the annuities, required in a termination to ensure the accrued benefits of all United's 59,600 retirees and active and inactive employees.

Still, industry executives are somewhat sanguine United could attain a competitive price for the annuities' purchase, possibly by splitting the annuities among several insurers or using a participating annuity, which enables more insurers to bid.

"It will be with one of the major insurance companies," said United's Mr. Doughty.

"We are also looking at the option of splitting the amount among several companies."

Some of the firms under consideration are, he said, Prudential Insurance Co. of America, Newark, N.J., and Metropolitan Life Insurance Co. and Equitable Life Assurance Society of the United States, both in New York.

Anthony Amodeo, an actuary at Metropolitan, said only a few insurers could handle such a sizable annuity bid.

"There's maybe four large mutuals and several large stock companies," he said, "maybe about six to eight companies altogether. But that's just a guess."

However, he didn't feel United would pay a higher price for the annuities because of a limited number of companies bidding.

"If Metropolitan knows there is serious competition, we'll make a serious bid, he said."

He also said he does not believe UAL would receive a better price by segmenting the bid to several insurance companies.

Murray Becker, actuary and vice president with the consulting firm of Johnson & Higgins, New York, said the use of participating annuities might be beneficial to UAL.

"Any time you're dealing with a number of this magnitude, you're dealing with a limited number of insurance companies, especially if they are required to maintain a certain reserve level by some state laws," said Mr. Becker.

"Even a conventional annuity of that size should be fragmented, but only if that gets a more favorable rate."

Harold J. Brownlee, vice president of actuarial services at Prudential, said participating annuities would not add many companies to the list of competitors. "It wouldn't really increase the competition because of the size (of the annuities). There aren't that many companies that are active in this business, anyway."

As to segmenting, he said, "It would depend on how you split it. If you gave different groups of individuals to each company, it wouldn't really run up the costs that much."

Continued on page 60

Fear of congressional action after huge United termination may prompt others to follow suit. Story on page 3.

Dallas, 3 states, Smithsonian

Divestment tide gains

By Trudy Ring

Another major city, three more states and the Smithsonian Institution have joined in the movement to divest pension funds and endowments of South Africa-related stocks, but they call for varying degrees of divestiture.

The Dallas City Council passed a non-binding resolution recommending divestiture by the city's pension fund, while the Iowa Legislature passed a bill tying investments to the Sullivan Principles of non-discrimination.

The Smithsonian Institution, facing intense pressure from Congress, has divested its $146.8 million endowment fund of stock in 16 U.S. companies that do business in South Africa but are not signatories of the Sullivan Principles.

Meanwhile, in Michigan, a bill introduced by a group of state legislators also calls for divestiture of all South Africa-related stocks.

In California, a bill before the state Assembly would prohibit state pension fund investments in companies operating in South Africa unless the companies adopt policies not to make new business arrangements there. A vote is expected in the next few months.

After more than two years of heated debate and several modifications and amendments, the Dallas City Council voted to recommend the $444 million Dallas Employees' Retirement Fund avoid purchasing securities of companies that do business with South Africa.

The resolution stopped short of ordering divestiture. Some City Hall observers now believe that issue could surface in the future.

The Dallas resolution was approved by a 6-5 vote after nearly three hours of debate. It was the third time in two years the South Africa investment question has come to a council vote. Twice before, the council rejected proposals requiring divestiture (*Pensions & Investment Age*, Oct. 1).

The resolution approved by the council is non-binding and carefully worded to adhere to city attorney claims that the employees' fund is prohibited by state law from divesting and must invest solely on behalf of participants without considering social implications (*P&I Age*, Feb. 18).

The fund's board of trustees passed its own resolution addressing the South Africa question one day before the council's vote, claiming it would "continue to invest trusteed retirement funds for the exclusive purpose of the beneficiaries of the funds . . . and not for the purposes of advocating any social or political objectives."

Ray Fleming, administrator of the fund, said no changes are

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INTERNATIONAL DIRECTORY

Pensions & Investment Age's *annual directory of international investment advisers begins on page 13. This year, 83 money managers reported total U.S. tax-exempt assets under management of $15.9 billion. Roughly $13.2 billion was invested in international (non-North American stocks) accounts and $2.7 billion was invested in global accounts, which are allowed to use U.S. securities.*

Late news

Royal Dutch shifts

NEW YORK — The $1.9 billion Royal Dutch Shell pension fund, one of the largest foreign investors in the U.S. non-residential real estate market, has shifted its $500 million real estate portfolio from Landauer Advisors Inc. to Richard Ellis Inc., industry sources said.

The sources said the switch follows by several months a move to Ellis by William Stuebe, who managed the Royal Dutch Shell account at Landauer.

Officials at Landauer and Ellis would neither confirm nor deny the report, and officers of Argus Realty, Royal Dutch Shell's U.S. realty subsidiary, were unavailable for comment.

The loss of the Royal Dutch Shell account, which invests in office buildings and regional shopping centers, would be a significant blow to Landauer, which reported $804 million in assets under management from 10 tax-exempt clients in *Pensions & Investment Age*'s May 6 money manager profiles issue.

The portfolio would boost tax-exempt assets under management by Ellis for foreign and domestic clients to nearly $1.5 billion. In the May 6 issue, Ellis reported $974

Continued on page 2

2 dropped, 3 hired in Clorox shift

By Alan Krauss

OAKLAND, Calif. — Clorox Co., implementing a new investment strategy for its $75 million pension and profit-sharing plans, plans to drop two money managers and hire three, said Nancy Roche, the company's assistant treasurer.

She said the manager changes will be effective at the start of the company's fiscal year July 1.

Ms. Roche said the fund's two balanced managers, Harris, Bretall, McEldowney & Sullivan Inc. and Kingsley, Jennison, McNulty & Morse Inc., both of San Francisco, will be dropped.

Clorox has allocated approximately $15 million each to: Northern Capital Management Inc., Madison, Wis., asset allocation style; Pacific Financial Research, Beverly Hills, Calif., value-oriented equity; and Roanoke Asset Management, New York, growth equity, Ms. Roche said.

Clorox was assisted in its manager search by Hewitt Associates, Lincolnshire, Ill., according to Ms. Roche.

The decision to alter investment strategy for the company's two benefit plans, a $50 million defined benefit plan and a $25 million defined contribution plan, was made as a result of a plan liability study done about a year ago in association with Howard Winklevoss, senior vice president of Johnson & Higgins, Ms. Roche said.

The study resulted in raising the fund's interest rate assumption and revising its cost method as well as its asset valuation, Ms. Roche said.

She wouldn't specify the new interest rate assumption, saying only

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PIPER monthly indexes

	Latest mo.	Year to-date	Trailing 12 mo.
S&P 500	5.7	15.4	31.8
OTC Inds.	3.4	15.9	15.4
Ryan Index*	6.2	10.9	33.4

Source: Rogers, Casey and Barksdale Inc.
*Fixed income.

With this issue, *Pensions & Investment Age* launches a new service to its readers — the PIPER monthly indexes.

These indexes track the changes in the Standard & Poor's 500 stock index, the OTC Industrial stock index and the Ryan Index of fixed-income securities.

This feature will appear monthly to assist financial executives in keeping track of movements in the stock and bond markets.

Small-screen investment a big hit

3 funds see gains from TV sale

By Steve Hemmerick

The Oregon public and the Michigan state employees' retirement systems and the Washington State Investment Board expect high returns from a leveraged buy-out investment in a Los Angeles independent television station.

Oregon might get nearly $20 million on its $5 million investment made about two years ago. All three funds made the investment in Los Angeles television station KTLA through their partnership in a $300 million leveraged buy-out pool run by Kohlberg Kravis Roberts & Co., New York, which now operates several such pools.

According to James C. George, investment officer, his fund also expects to benefit from Coca-Cola Co.'s definitive agreement, announced June 18, to buy for $485 million several television and movie properties. The Oregon system invested $10 million, and the Eastern Airlines Variable Retirement Plan for Pilots invested an unknown sum in one of the properties, Embassy Film Associates.

The investment in Embassy by Oregon and Eastern was separate from any KKR investments, and the Washington and Michigan funds were not involved in it.

Mr. George said he doesn't know the return on his Embassy investment.

Officials at all three pension funds said the sale of KTLA isn't final for them until they have a "check in hand" and Federal Communications Commission approval, required in all sales of television stations.

Of the three funds, Oregon put in the most, $25 million, in the KKR pool formed in 1982. Michigan put in $15 million and Washington, $10 million.

William A. Amerman, director-bureau of investments for the Michigan fund, and an official for the Washington investment board, said they haven't yet calculated the returns they expect from the television investment, but expect them to be high.

Both Oregon and Washington put $100 million each in a second KKR leveraged buy-out pool, in which Michigan put in $35 million. Money from that pool still is being invested.

However, Mr. George said he is pleased about the string of leveraged buy-out investments his pension fund has made, although the investments account for only 8% of the fund's $4.4 billion in assets. Mr. Amerman and the Washington fund official expressed similar feelings about leveraged-buy-out investments.

The television purchase was made in April 1983 for $245 million through KKR's investment pool, which owns 90% of the station. The remainder is owned by station executives. Last month, the Chicago-based Tribune Co. agreed to buy the station for $510 million.

Although the Oregon fund stands to gain nearly $20 million on the television sale, that $20 million would be the return on only $5 million of the $25 million the fund invested in KKR's first pool.

Officials at the three pension funds said other investments made by the KKR pool include Wometco, Dillingham Corp., Amstar Corp. and Pacific Realty Trust. Wometco, a broadcast group, has plans to sell

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Clients of Stein, Roe are unfazed by arrest

By Trudy Ring

Stein, Roe & Farnham clients had mixed reactions to the arrest and subsequent resignation of partner John Giura, but none contacted by *Pensions & Investment Age* intends to terminate the firm.

Mr. Giura was arrested June 12 in New York and charged with obstructing a Securities and Exchange Commission investigation of payments he instructed a brokerage firm to make to two individuals. He was released after posting $250,000 bond. A preliminary hearing was set for July 3.

Mr. Giura, one of 54 partners in Stein, Roe, resigned after his arrest, saying, "I intend to spend all of the time necessary to defend myself against the charges and prove my innocence." He had been with the firm since 1959.

Marshall Front, a spokesman for Stein, Roe, said Mr. Giura's responsibilities have been assigned to others within the firm. He declined to say which accounts Mr. Giura handled, but said Mr. Giura's investment team was responsible for about 15% of the $9 billion run by Stein, Roe.

The complaint filed against Mr. Giura by the U.S. attorney's office said he managed pension fund investments for a large number of unions, including various Teamsters local and regional pension funds. However, officials of several Teamsters funds contacted by *P&I Age* said they do not use Stein, Roe as a manager.

Some funds that do use Stein, Roe indicated Mr. Giura's situation would not result in termination of the firm as a manager. An official of Chicago Bridge & Iron Co., Oak Brook, Ill., said the relationship with Stein, Roe is subject to review, but the relationship is a long-standing one so a change is unlikely.

Stein, Roe's relationship with the General Board of Pensions, United Methodist Church, Evanston, Ill., is not expected to change because the firm runs bonds for the church fund while the charge relates to a stock brokerage matter, said Gerald Hornung, general secretary.

Several other clients either said they were unfamiliar with the charge against Mr. Giura, or else declined comment.

Mr. Giura is charged with conspiring to cover up payments that a stock brokerage firm had made to

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Investors refuse two payments

By Barry B. Burr

ST. PAUL, Minn. — The institutional holders of a BMC Industries Inc. convertible note issue — including the Atlantic Richfield Co. pension fund and the Teachers Insurance and Annuity Association — have refused two quarterly coupon payments as part of their effort to force the company to rescind the $30 million private placement issue.

The dispute could force a complete restructuring, at probably higher interest rates, of almost all of BMC's $87 million in long-term debt. Any rescission of the $30 million convertible issue would require the consent of BMC's senior lenders, which have $52.5 million outstanding credit to the company.

The institutions claim BMC was deficient in the disclosure marketing the private placement, citing in part the resignation of Ryal R. Poppa, president, chief executive officer and chairman of the board.

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Late news

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million in total assets under management, $102 million of which was for 55 U.S. pension funds.

AT&T drops Bankers

NEW YORK — American Telephone & Telegraph Co. replaced Bankers Trust — Investment Management Group, New York, as custodian and record keeper of its $3.4 billion employee savings plan with American Transtech Inc., a Jacksonville, Fla., unit of AT&T.

Transtech won out in a competitive bidding, according to a source. "They made the best bid offer," the source said. "They competitively bid for it. They are very cost effective."

Besides the good price, he called the move logical because Transtech already handles AT&T's shareholder services and stock and bond transfer services for Bell operating companies.

Court backs trustees

WASHINGTON — Multiemployer fund trustees have the right to examine payroll and personnel records of contributing employers, the U.S. Supreme Court has ruled.

The 6-3 decision overturns an appeals court ruling involving the Teamsters, Central States, Southeast & Southwest Areas Pension Fund and 16 trucking companies. The dispute concerned the fund trustees' efforts to audit records of non-covered employees to check whether the plan participant population reported by the employer was accurate.

In a dissenting opinion, Justice John Paul Stevens said the Employee Retirement Income Security Act does not give trustees the right to examine the records of employees not covered by the collective bargaining contract.

Met Utilities buys GIC

OMAHA, Neb. — The $50 million Metropolitan Utilities' pension fund has hired Prudential Insurance Co. of America, Newark, N.J., for a $10 million guaranteed investment contract.

The money previously was run in equities by Metropolitan Life Insurance Co., New York.

The GIC, effective last March 20, places $5 million in a three-year contract at 11.35% and $5 million in a five-year contract at 12.25%.

Jack Klein, assistant general manager of finance for Metropolitan Utilities, said no consultant was used in the search.

I.A.M. fund selects 4

WASHINGTON — The $800 million I.A.M. National Pension Fund reportedly has hired four money managers.

The firms said to have been hired, and their assigned investment styles, are: Amivest Corp., New York, growth equity; Mellon Capital Management Corp., San Francisco, fixed-income index; Stein Roe & Farnham, Chicago, active balanced; and State Street Research & Management Co., Boston, equity index

Alan Skolnick, fund director, was unavailable for comment.

Personnel news

• OAK BROOK, Ill. — Dan Barton has been promoted to investment portfolio manager for CBI Industries Inc., parent company of Chicago Bridge & Iron Co. He replaces Robert Szombathy, who joined Allstate Insurance Cos., Northbrook, Ill., as an analyst in the investment department.

Mr. Barton will oversee about $175 million in pension assets and $90 million in profit-sharing funds.

• FORT WORTH — George K. Nicolaides has been named pension fund administrator for the Fort Worth, Texas, Employees' Retirement Fund.

He had been controller for the Diversified Chemical Corp., Houston.

He takes up the responsibilities for administering the $252 million pension fund formerly held by A. Judson Bailiff, the city's treasurer. Mr. Bailiff remains as treasurer.

No decision on liability

MILWAUKEE — Allis-Chalmers Corp. officials have not yet decided on a course of action concerning the $80 million in unfunded pension liabilities the company retained after selling most of its farm equipment operations to Klockner-Humboldt-Deutz AG, West Germany, a spokesman said.

The liabilities are associated with a tractor plant and a diesel engine plant that were not included in the sale and are being phased out.

Discussions are going on with unions at the plants, the spokesman said.